

Funding Continues to Drop in Defense Programs

Defense funding declined for fiscal year 1996. While defense spending will likely increase in nominal terms in the next few years, the expenditures will be a declining portion of the Nation's gross domestic product, and some programs will receive fewer dollars (in real terms) than they are currently receiving. Funding priorities did not undergo significant changes for fiscal year 1996 from that established in earlier fiscal years. While the bulk of spending in defense programs is in metro counties, nonmetro counties do receive a substantial sum.

On February 10, 1996, President Clinton signed into law the National Defense Authorization Act for Fiscal Year 1996 (P.L. 104-106). The bill authorizes "appropriations for fiscal year 1996 for military activities of the Department of Defense, to prescribe personnel strengths for such fiscal year for the Armed Services, and for other purposes." This and two earlier acts (P.L. 104-61 and P.L. 104-32) cover the fiscal year 1996 budget for the Defense Department that includes not only the primary mission of national defense, but funds for local economic adjustment to the declining defense expenditures, environmental restoration from military operations, and U.S. Department of Energy and national security programs.

While the \$266 billion in the act's budget for fiscal year 1996 was \$7 billion more than the President had requested, it represented a decline from the estimated \$272 billion in fiscal year 1995 expenditures. The post-Cold War trend of less spending on national defense continues but is bottoming out. Nevertheless, the expenditures on the Nation's defense, as a portion of total Federal outlays according to current departmental budget plans, will continue to decline for the rest of the decade (from 20.5 percent in 1994 to an estimate of 15.4 percent in the year 2000). The 1990's have reversed the 1980's trend of increased spending on defense. In addition, Defense, unlike most other Federal departments and agencies, began restructuring and reducing the number of personnel (both civilian and military personnel) several years ago.

The four major components of defense spending are procurement, personnel, operations and maintenance, and research and development. Procurement (purchases of new military equipment) is the only category expected to receive an increase in outlays during the latter half of the decade (47 percent by 2001); the other categories are expected to receive gradually less funding through the year 2000. The fiscal year 1996 budget for procurement, however, calls for only \$48 billion in outlays, a decline of \$6 billion from fiscal year 1995 levels. Consistent with the proposed outlays, employment in the private industry that supplies Defense will have decreased from 3.6 million in 1989 to about 2.1 million by 1997 (procurement funding fell 70 percent from the peak in 1985 to the current fiscal year, 1996). Probably less than 15 percent of this industry is in rural areas.

Personnel is the funding category most important to rural areas. Roughly 22 percent of domestically based military personnel (active-duty, National Guard, and Reserves) are in rural areas (nearly a half a million). While the number of personnel will have declined by about 30 percent between 1989 and 1999 according to Presidential budget proposals, the share rural areas have will remain roughly the same if this reduction continues to follow the same pattern. Most of the decline in the number of military personnel has already taken place. An outlay of \$67 billion is expected for military personnel during fiscal year 1996; a decline of \$3 billion from fiscal year 1995 outlays. The National Guard and the Air National Guard, for example, will lose 27,000 personnel in fiscal year 1996. Figure 1 shows the concentrations of military personnel (active-duty, National Guard, and Reserves) across the country.

While the economic effects of realignment and reductions in the various forces (active-duty, National Guard, and Reserves) are spread across the Nation, some rural communities are especially feeling the affect from the reduced level of the military. More than 20 of the 75 rural military bases that existed in 1990 will be closed by the end of the decade; some other rural bases will have fewer personnel. Communities near bases undergoing cutbacks will face greater economic distress than most others across the Nation.

With the ongoing adjustments in the defense sector, programs have been set up to assist communities that have had to face adjustments. Slightly more than \$40 million in Federal outlays during fiscal year 1994 were spent on military base reuse studies and planning assistance for communities experiencing base closures and realignments, one of the pro-

grams with the greatest direct impact on rural areas. Approximately \$4.5 million was for rural communities' efforts to develop plans for the redevelopment of former military properties (table 1). The largest beneficiaries, however, were in metro areas: \$5 million for Monterey County, CA; \$3.8 million for York County, VA; \$3 million each for Sacramento County (Sacramento), CA, and Suffolk County, MA; and nearly \$1.5 each for Alameda County (Oakland), CA, and Dorchester County (Charleston), SC.

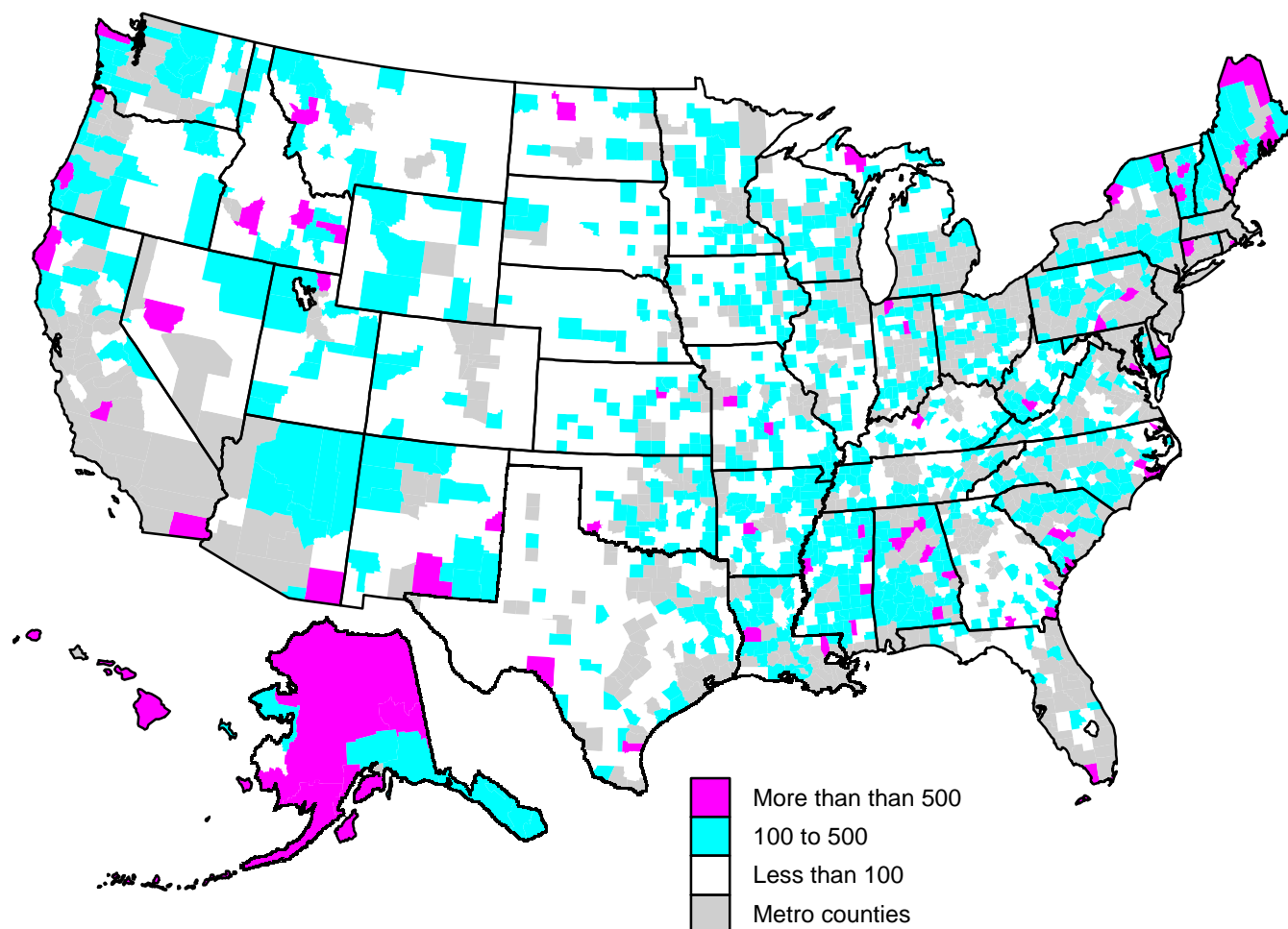
Community planning assistance for defense industry adjustments totaled nearly \$10 million in funding; nonmetro counties directly received \$650,000 of this sum. The program helps communities plan their adjustment to the changes in defense industries. Only 12 communities received this funding in fiscal year 1994; five are in nonmetro counties (table 2). The largest outlays again went to metro areas: Bexar County (San Antonio), TX, received \$8 million; Dallas County (Dallas), TX, received \$331,000; and Orange County, CA, received \$300,000. Funding for adjustment programs is expected to hold steady or rise slowly for the rest of the decade.

Defense programs contain special set-asides. The fiscal year 1996 budget, for example, calls for a number of special expenditures to assist in the return of nonmetro military properties to local communities. In the return of Kahoolawe Island to Hawaiian natives, for example, the bill authorizes \$25 million to be put into a trust fund for the

Figure 1

Active duty, National Guard, and reserves in the 50 States, 1993

While nearly all counties have military personnel, the heaviest concentrations are in the South and the Northeast



Source: Calculated by ERS from data provided by the U.S. Department of Commerce, Bureau of Economic Analysis.

Table 1

Nonmetro counties receiving military base reuse assistance*Twelve nonmetro counties received assistance in fiscal year 1994*

County	Amount of grant
	Dollars
Lowndes County, Alabama	100,000
Mississippi County, Arkansas	707,510
Humboldt County, California	46,875
Ripley County, Indiana	347,600
Vernon Parish, Louisiana	75,000
Aroostook County, Maine	696,288
Franklin County, Maine	200,000
Marquette County, Michigan	705,600
Clinton County, New York	901,446
Clearfield County, Pennsylvania	230,000
Bee County, Texas	286,300
Tooele County, Utah	184,500
Total nonmetro	4,481,119

Source: Calculated by ERS from Federal Funds data.

Table 2

Nonmetro counties receiving community planning assistance for defense industry adjustments*Five rural communities received the funding in fiscal year 1994*

County	Amount of grant
	Dollars
Bonneville County, Idaho	98,120
Labette County, Kansas	135,000
Seneca County, New York	170,000
Tooele County, Utah	196,400
Pulaski County, Virginia	50,000
Total nonmetro	649,520

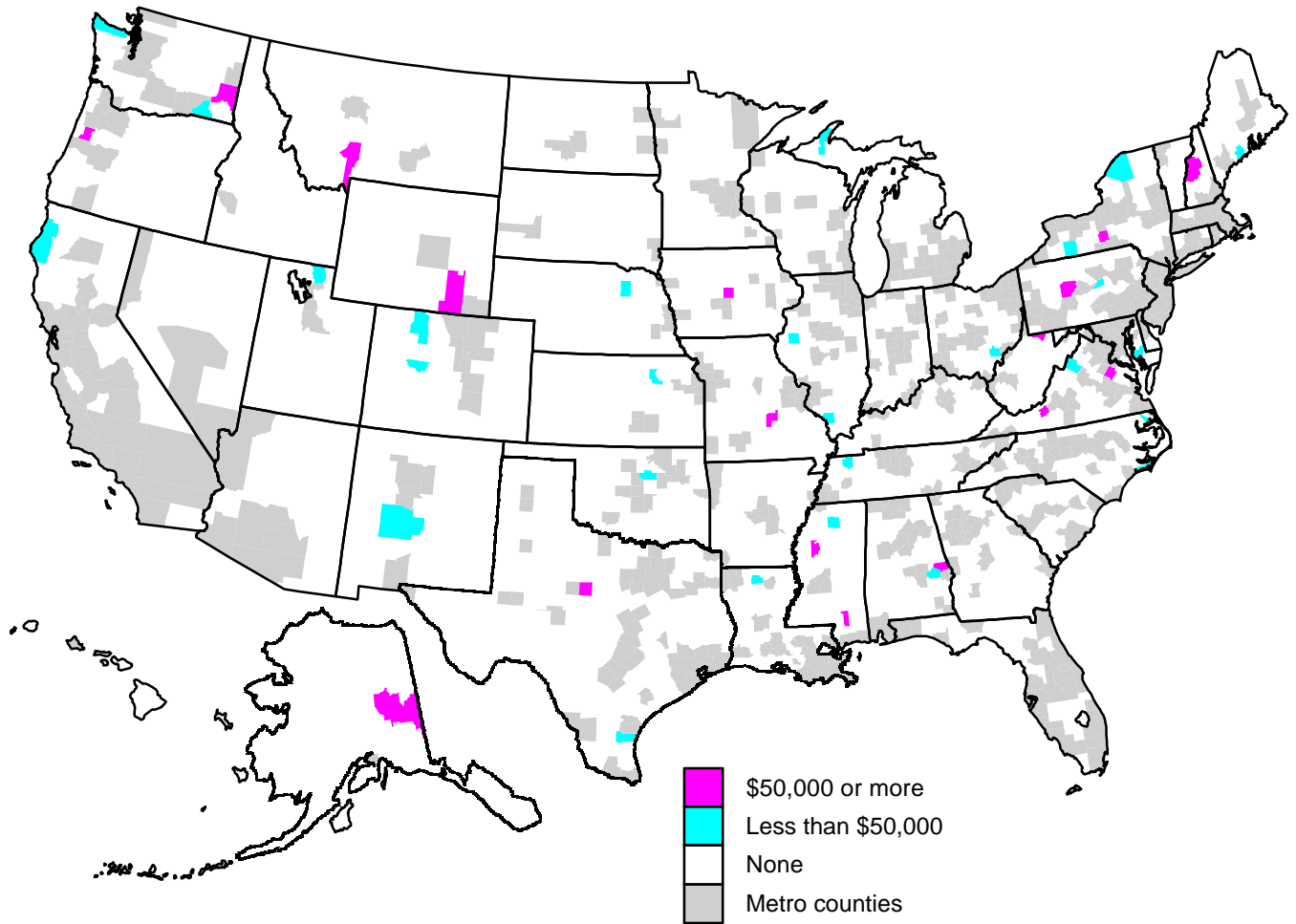
Source: Calculated by ERS from Federal Funds tapes.

island's restoration (the island had been taken over during World War II for Navy target practice and, as a consequence, the fund would be used toward the removal of unexploded ordnance).

Nearly \$35 billion was spent in fiscal year 1995 by Defense on research, development, testing, and evaluation. Approximately the same will be spent in fiscal year 1996 with a slight increase expected for the rest of the decade. These Department of Defense expenditures have some impact on rural areas. In fiscal year 1994, nearly \$500 million was spent on basic and applied research with approximately 7.5 percent (\$37 million) going directly to nonmetro counties. Basic and applied research funding in nonmetro counties for fiscal year 1994 can be seen in figure 2. Overall, Defense spent \$1.4 billion in research programs, such as basic and applied research, medical research, and astronomy research; \$82 million (6.1 percent) went directly to nonmetro counties. The recipients are units of the military, private companies, and universities. Most rural recipients are universities. [Peter L. Stenberg, 202-219-0543, stenberg@econ.ag.gov]

Figure 2

Defense investment in basic and applied scientific research, fiscal year 1994
Rural universities are frequent recipients of the funds



Source: Calculated by ERS using Federal Funds data from the Bureau of the Census.